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March 12, 1997

EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: *In the Matters of Access Charge Reform, CC Docket No. 96-262; Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1; and Usage of the Public Switched Network by Information Service and Internet Access Providers, CC Docket No. 96-263*

Dear Mr. Caton:

In accordance with the Commission's rules governing *ex parte* presentations, please be advised that yesterday Bill Blase and Stephen Carter, representing Southwestern Bell Telephone Company ("SWBT"), met with John Nakahata of the Office of General Counsel. The purpose of the meeting was to discuss SWBT's stated positions and its access charge reform proposal, which are set forth in detail in its Comments in the above-referenced rule making dockets.

Written materials, which were used during our meeting, are attached to this letter for inclusion into the official record in these proceedings. Due to unavoidable circumstances we were unable to file this notification yesterday. We apologize for any inconvenience this may cause. Should you have any questions concerning the foregoing, do not hesitate to contact me.

Very truly yours,

Todd F. Silbergeld

Attachment

cc: Mr. Nakahata

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Enhancing Competition

Southwestern Bell's Plan to Reform Access

Bill Blase
Stephen Carter

March 1997

Southwestern Bell

Hypothetical Models do not Produce the Results of Competitive Markets

- ✓ AT&T and MCI allege that access rates can be cut by over $10B based on hypothetical models of networks that do not exist and never will.
- ✓ AT&T's and MCI's hypothetical model based prices would only recover 38% of the RBOCs total cost of providing service.
- ✓ IXC rates, in a market they allege is competitive, are not even close to the results generated by their own hypothetical models.

The Opportunity to Recover Actual Costs Must Continue

- ✓ ILEC actual costs have been approved by both state and federal regulators and cannot be merely disallowed by a "computer sleight of hand."
- ✓ No initial rate reductions are appropriate.
- ✓ An "opportunity" is not a "guarantee" and does not shield ILECs from competitive losses.

The Opportunity to Recover Actual Costs Must Continue (cont.)

- ✓ Entry into the interexchange marketplace was the "quid pro quo" for entry into the local exchange by IXCs. Sacrifice of significant LEC cash flow was not contemplated by the Act.
- ✓ Price levels established for unbundled elements, if set based on proxies, guarantee a revenue shortfall.

The Productivity Factor Should be Reduced

- ✓ 5.3% is too high.
- ✓ Cable TV productivity factor 0%, AT&T 3%.
- ✓ State productivity factors have averaged 2.6% to 2.9%.
- ✓ 1991-5 Christensen results equal 2.7%.
- ✓ Restructuring of CCL, TIC reduces X by 0.4%.
- ✓ Public Policy basket X should be 2.3%.
- ✓ Based on competition, Network Svcs. X=0%.

Access Charges Should be Applied to Unbundled Network Elements

- ✓ Unbundled network element prices do not recover actual costs.
- ✓ Full SLCs should be assessed to all purchasers of unbundled loops.
- ✓ Transport public policy element should be assessed to unbundled transport.

The Need for Aggressive Access Reform is Essential and Immediate

✓ Facilities-based competition is already widespread and operational.

- ➢SWBT special access market share:
  - Dallas 51%
  - Houston 58%

✓ Unbundled network elements and interconnection are a direct and pervasive alternative to access.

- ➢Using rebundling, an LSP can offer a 74% discount to the top 10% of Texas residence customers.

✓ Access traffic is concentrated and vulnerable.

- ➢Top 3% of SWBT central offices serve 30% of the minutes; top 10% of offices serve 50% of the minutes.

SWBT's Prescriptive-Oriented Approach to Rebalancing Prices

✓ Prices must reflect cost causation, to the extent feasible.

- ➢Eliminate CCL, adjust the SLC.
  - Increase residence and single line SLC by $1.30.
  - Reduce multiline business SLC by $1.20, to single line level.
- ➢Establish an end user switching port charge ($0.35 per line).
- ➢Reallocate the Transport Interconnection Charge (TIC).

✓ Establish Public Policy elements, paid by carriers, when public policy concerns preclude cost causative adjustments.

- ➢Low volume, rural transport support
- ➢Tandem switching support

SWBT's Market-Based Approach to Pricing Flexibility -- Responding to Customer Needs

✓ Open Market, upon availability of interconnection/unbundling

- ➢Flexibilities:
  - Volume-term arrangements, contract pricing, deaveraging, RFPs
  - Price cap relaxation

✓ Effective Competition, upon exchange of local minutes

- ➢Additional flexibilities:
  - Access removed from price caps
  - One day filing notice, no cost support

✓ Deregulation -- sufficient competition exists today

- ➢Special access, dedicated transport, DA and operator services

Asymmetric Regulation of Terminating Access is Unnecessary

- ✓ The direct substitutability of unbundled transport and termination will discipline terminating access rates.
- ✓ For SWBT, terminating traffic is falling relative to originating for selected carriers in major markets.
- ✓ Excessive terminating charges only encourage integrated carriers to "win the end-user" to avoid the charges.
- ✓ If the Commission believes terminating access market power exists, all carriers possess it equally and should be regulated symmetrically.

SWBT's Plan is Constructive

- ✓ It balances prescriptive-oriented price reductions and market-based incentives.
- ✓ It corrects inefficiencies while allowing for public policy limitations.
- ✓ It enhances competition while granting ILECs the opportunity to recover actual costs when their network and services are leased.

The "FERC" Should be Imposed Equally on all Access Lines

- ✓ Imposing the new "FERC" on only multiline business and second residential lines continues the "monopoly paradigm" the Commission claims to have abandoned.
- ✓ Imposing the "FERC" unevenly will deter widespread competition.